



# Effect Of Hyperbolic Discounting - A Cognitive Bias

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## Background &Explanation

Hyperbolic Discounting is a cognitive bias, where people’s tendency will be to over-value immediate rewards at the expense of their long-term intentions . When offered a larger reward in exchange for waiting a set amount of time, people act less impulsively (i.e., choose to wait) as the rewards happen further in the future. This bias is considered as “time inconsistent” , because reward valuation falls rapidly with small periods of delay and then slowly for longer delay periods.

## Methodology

### The test of Hyperbolic Discounting Bias

- The following Question was framed , and a survey was taken among 20 graduate students of Finance department, University of Bridgeport.
- XYZ financial institution comes up with Fixed Term deposit program which is offered for limited time period. You can get the reward/ interest only at the end of Term. Let’s say you have some amount and interested in depositing one of the programs offered.  
**Condition 1:**
  - Option A: If you deposit for one-month term you will earn an interest of 3%.
  - Option B: If you deposit for Two months you will earn an interest of 3.5%  
Which one would you choose?**Condition 2:**
  - Option A: If you deposit for one year you are entitled for an interest of 3%
  - Option B: If you deposit for one year and one month you will earn an interest of 3.5%  
Which option would you choose?

## Results

Difference	15 %
95% CI	-15.8494% to 41.8918%
Chi-squared	0.820
DF	1
Significance level	P = 0.3651

- **Participants had no problem choosing the higher figure for the distant future but find it hard to be patient when the smaller amount is right in front of them.**

